

The Real Estate
TRENDS

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Congrigon 1932 by ROY WENZLICK & CO. Select louis
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

REAL ESTATE ACTIVITY AND RESIDENTIAL CONSTRUCTION During the month of July our national real estate activity index virtually marked time. However, it did mark time in the right direction up 0.3 of a point. It is now 29.6 points above the long-range computed normal, whereas last month the reading was 29.3.

It's almost impossible to determine just what effect Regulation X has had on the average real estate broker. Naturally, if he was dealing in the sale of new homes, or handling a large number of FHA-VA sales, he has been hit pretty hard. Consequently, he may get some relief from the coming demise of Regulation X.

This help will come from an increase in the sale of new homes conventionally financed. In our opinion, the amount of FHA-VA sales will be affected very little by anything that happens to real estate credit regulations.

Reluctance of lenders is what has slowed down FHA-VA sales much more than the inability of the purchaser to dig up the necessary down payment.

In connection with the subject of down payments, the following figures may be of interest. The 1952 "Survey of Consumer Finances" reports that in 1952, 61% of all families held liquid assets of less than \$500. In 1950, this figure was 58% and in 1949 it was 57%, so liquid assets in the hands of consumers are dropping slowly, but steadily. The Bureau of Labor Statistics has just released a report to the effect that in 1951 the average urban family spent \$400 more than its income (after taxes). Regardless of these gloomy reports, real estate activity will continue high for the remainder of 1952, and will get a small boost from the removal of Regulation X.

As we have pointed out before, the government is openly playing politics with credit controls at the expense of the real estate and home building industry. So long as Regulation X is going to be removed, it might as well have been removed in July. All of this hocus-pocus about trying to determine the rate of construction is like using integral calculus to find the sum of 2 + 2. Residential construction

¹ Issued by the Board of Governors of the Federal Reserve System.

has hit a 1,200,000 annual rate only <u>once</u> since September 1950, and that was in June of 1951, when the Public Housing Administration put some 40,000 units under permit in order to beat a Congressional deadline. However, by using this subterfuge, the removal of controls is delayed until 4 to 6 weeks before the election. This accomplishes two things: 1. the resulting stimulation to the economy will probably last at least until November 1; and 2. the beneficence of the Administration will be fresher in the minds of the voters.

REAL ESTATE AS AN INVESTMENT

The "Survey of Consumer Finances" that we have already mentioned revealed some very interesting points regarding the preferences of the investing public. It revealed, among other

things, that only 26% prefer investments with a fluctuating money value. Most of the other investors preferred investments in savings accounts and savings bonds, and the overwhelming reason given for this preference was the safety, or security, factor. The reason that so small a percentage preferred investments with a fluctuating money value is probably the result of two things: First, the greater percentage of people are always conservative in their investments and, regardless of the outlook, would prefer savings accounts, savings bonds and other fixed investments to "risk" investments. The second reason is probably the fact that many people are becoming wary of risk investments after the very long boom we have come through.

Among those who preferred investments with a fluctuating money value, real estate was favored by about 65%. This group, who prefers to invest in assets with a fluctuating value, breaks down in the following occupational divisions:

Occupation	Percent preferring real estate as an investment
Farm operators	93%
Unskilled and service workers	84%
Self-employed	72%
Skilled and semiskilled	69%
Clerical	57%
Professional and semiprofessional	50%
Managerial	48%
Retired	35%

In reading this table, you should keep in mind that the percentages do not apply to \underline{all} investors in each occupational group. They apply only to those investors who prefer to invest in assets that fluctuate in value.

(cont. on page 360)

² July starts reached 104,000. Through first 7 months of 1952 they totaled 669,700 compared with 680,500 for first 7 months of 1951. However, the large number of public housing starts in 1951 makes this comparison appear more unfavorable than it actually is.

INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS



COMMERCIAL BUILDING - NO BASEMENT

Content: 115,850 cubic feet 8,075 square feet

Cost today: \$50,745

(43.8¢ per cubic foot; \$6.28 per square foot)



18-FAMILY BRICK APARTMENT (FRAME INTERIOR)*

Content: 168, 385 cubic feet

13, 260 square feet

Cost 1939: \$ 60,300

(35.8¢ per cubic foot; \$ 4.55 per sq. ft.)

Cost today: \$159, 272

(94.6¢ per cubic foot; \$12.01 per sq. ft.)

INCREASE OVER 1939 = 164.1%



30-UNIT REINFORCED CONCRETE APARTMENT*

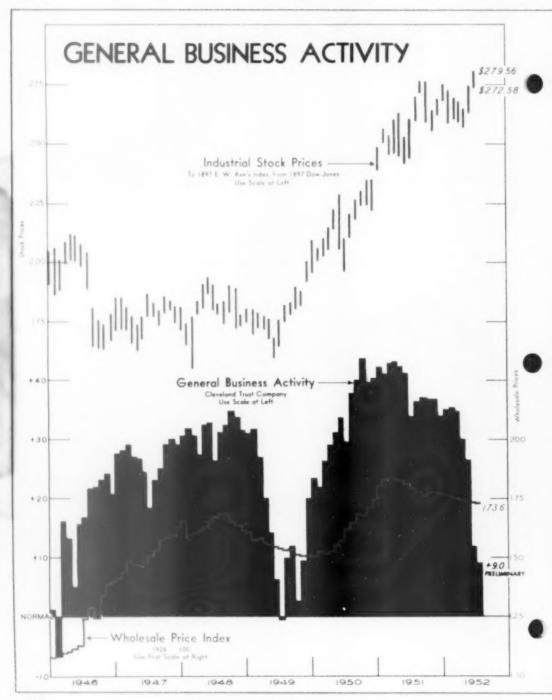
Content: 303, 534 cubic feet 21, 372 square feet

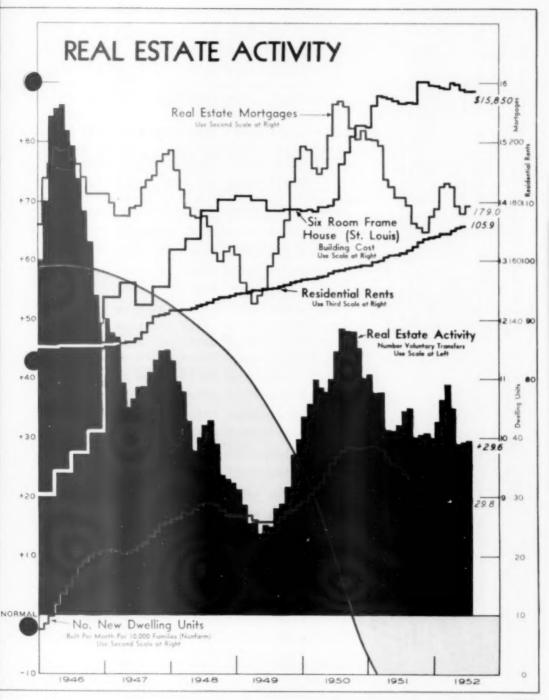
Cost 1939: \$135,000

(44.5¢ per cubic foot; \$ 6.33 per sq. ft.) Cost today: \$342,234

(\$1.13 per cubic foot; \$16.01 per sq. ft.) INCREASE OVER 1939 = 153.5%

*Costs include full basement.





BUILDING COSTS OF A STANDARD SIX-ROOM FRAME HOUSE BUILT IN ST.LOUIS

A further breakform to loar classifications of material, four of labor and one of overtead.

A further breakform of these groups is given in defaul being. Columns of the table are mandered, and a brief description of the terms breakform is each is given in the paragraphs below. Paragraphs are numbered to correspond with the columns described. Building material, costs are indicated by the letter M. corresponding labor thems, in red, by the letter L.

No labor thems are shown in Column 10, Building Hardware, as they have already been to clumn 5, Millwork.

Group A.

(1) Manoury: Cement, sand, gravel, quirk lime, hydrated lime, hard wall planter, face and common brick, flire brick, fine liming.

(2) The Work: 4-1/4 x 4-1/4 wall the, ceramic floor lile, cap and base.

(2) The Work: 4-1/4 x 1-1/4 wall the, ceramic floor lile, cap and base.

(20) Thin sheed Lumber: olumns, beams, short and ceiling joints, interior and exterior.

Staished Lumber | olumns, beams, floor and ceiling joints, interior and exterior

(4) Funished Lumber: Sub-Booring, sheathing, finished Bloors, asphalt shingle rooting, rooting lett, shitters; etc.
(5) Milvers, Windows, doors, trim, kitchen cabinet, stairs.

(7) Pounding. Soil paper and connections, stack, water pape and connections, lead oaksim and baltnoom fixtures, water better and tack in be furnished by others.

(8) Elect Mattle, Calv. Iron (present) gathers, developed by others.

(8) Electrical Movie. Main switch is a cable, switch boxes, preparities, transformer, etc. No fixtures lockleds.

(10) Nation of Enterioral Work. Main switch is a cable, switch boxes, preparities, transformer, etc. No fixtures lockleds.

(11) Painting. White lead, inneed oil, turpertine variable, shrings, index.

(13) Masterial and Labor Costit.

(14) Masterial and Labor Costit. (15) Total overhead, profit and other costs. This item includes overhead and profit of subcontractors in plastering, metal work, healing, plembing, electrical work and tile work, general contractor's profit, and Ainsouri salas tax (now T) on materials), old age and unemployment tax (Federal and State), itability and employees compensation in surance, fire and tornado insurance, and completion bond.

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(cont. from page 354)

It is interesting to note what might be called a lack of preference for real estate on the part of retired investors - only 35% preferring real estate holdings to those of other types. This is undoubtedly caused by the fact that many retired investors have been badly hurt by rent controls. After all, under rent control, small rental property has not been allowed to increase in value. In many cases, investments in small rental property have proved to be liabilities rather than assets and, while their value has fluctuated, it has fluctuated in a downward direction, while most other values were rising.

REAL ESTATE
MORTGAGE ACTIVITY

If we were confined to reporting nothing but the change in mortgage activity during July, it could be done in two words - practically none. Our index rose from 176.4 to 179.0, a rise of 2.6

points. Mortgage activity will follow the same general trend taken by real estate activity. Therefore, we expect it to remain about the same, with the possibility of slight improvement after the removal of credit controls.

There is a possibility that lenders will come under considerable pressure to make unsound loans once regulations are eliminated. However, we are sure that most of them are smart enough not to confuse legality with prudence.

RESIDENTIAL CONSTRUCTION COSTS

No change during July - practically none anticipated.